

PROGRAM FOR EFFICIENCY AND TRANSPARENCY IN GOVERNMENT PROCUREMENT

(NI-0143)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Nicaragua	
Executing agency:	Technical Secretariat of the Office of the President (SETEC), in coordination with the Procurement Office (DC) of the Ministry of Finance and Public Credit (Ministerio de Hacienda y Crédito Público - MHyCP)	
Amount and source:	IDB: (FSO)	US\$18,000,000
	Local:	US\$ 4,500,000
	Total:	US\$22,500,000
Terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 years (plus another 6 months in the case of resources for auditing and a final evaluation)
	Interest rate:	1% during the grace period and 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
Objectives:	To improve efficiency and transparency in the government procurement system.	
Description:	The Government of Nicaragua is promoting reforms to regulate government procurement and to improve its efficiency and transparency. The reforms include a new government procurement act and a program to make government procurement more efficient and transparent. Part of this program is a loan operation with the Bank, hereinafter “the operation”, that will help address the needs that the country’s reconstruction poses by strengthening internal oversight and management systems in the principal government agencies, including training for the personnel involved in those systems.	

The program will also develop a new, modern and sustainable procurement system. A parallel technical cooperation operation is being prepared for that purpose and will be submitted to the Donors Committee of the Multilateral Investment Fund (the respective eligibility memorandum has been approved).

The proposed program has the following components:

1. **Project inspection** will strengthen the Executive Branch's system for internal oversight of government agencies' procurement to ensure transparent use of resources. The inspection work will focus on procurement procedures in those agencies, regardless of the source of funding or the type of entity carrying out the procurement. The inspections to be done will address technical (including environmental), financial, administrative, procedural and control issues, including supervision of construction works. The reports that the inspections produce will be disclosed to the public. A consulting firm will implement this component and will be hired by the government in accordance with terms of reference agreed upon by the Bank and government and on which the "Group of Five" will be consulted.¹
2. **Procurement management support** will upgrade and consolidate the capacity for preparing and managing procurement in seven government agencies, to keep pace with the higher level of performance that the rebuilding from Hurricane Mitch necessitates. The Procurement Office will also be assisted to enable it to fulfill its mandates under the new Procurement Act. It is recommended that two consulting firms be hired for this component: one to assist the participating agencies' procurement units, and the other to work with the Procurement Office. The government and the Bank will agree upon the terms of reference for these consulting firms.
3. **Development and introduction of training in procurement** will establish a sustainable training structure in Nicaragua for ongoing training of personnel involved in procurement. To carry out its responsibilities under the Procurement Act as the government unit regulating the procurement system, the Procurement Office will provide the training, with the assistance of a consulting firm. The consulting firm will determine how the training structure should be organized, prepare and implement

¹ A group of countries composed of the United States, Spain, Canada, Germany, Sweden and Japan, representing the donor community, based in Managua.

the training programs and manuals and the criteria for updating both, identify the target population, train the instructors and publicize the training program.

At the same time, a technical cooperation operation is being readied for presentation to the MIF's Donors Committee for the development and implementation of a new procurement system. The purpose of the operation is to establish a new system in Nicaragua to promote sustainable efficiency and transparency. In principle, the new system will have four basic elements: a regulatory entity charged with regulating and standardizing the national procurement system; a sustainable internal oversight system; a structure for training and its dissemination among the private sector; and an information system and database for efficient and responsive use of resources, transparency and broad-based participation by all the stakeholders.

**The Bank's
country and
sector strategy:**

As set forth in the country paper, the goal of the Bank's strategy is sustained economic development. The strategy targets include: continuity in the orderly reorganization of the public sector as part of the government reform now under way; more efficient and transparent management of public funds [financial and administrative management system] (SIGFA), and measures that promote good governance. The present operation fits into that strategy as it involves activities that are essential to enhancing good governance and transparency in government procurement, in coordination with national financial systems and other steps being taken to modernize the State.

**Environmental
and social
review:**

The operation's environmental strategy consists of specific measures under each component. As noted in section IV (environmental concerns) of this document, those measures were incorporated pursuant to recommendations that the Committee on Environment and Social Impact (CESI) made at its 18 January 2000 meeting.

Benefits:

The support that this operation will provide to the procurement system is informed by mandates given under the new Procurement Act and intended to make the system more efficient and transparent, thereby increasing public confidence in it.

Shorter tendering processes, lower attendant costs, and stronger institutional management will improve efficiency. The information system to be developed will improve transparency, serve as a tool for enforcing the new legislation enacted to promote greater efficiency, disclosure and transparency, which will be beneficial to the participating public- and private-sector stakeholders. As these improvements are made, efficiency and transparency will increase, thus improving reliability and the perception that the public and the international community have of competitive bidding operations.

This, in turn, will increase inflows of external resources.

Lastly, an improved capability for internal oversight and procurement management will help handle the increased volume of procurement that the country's reconstruction necessitates. Moreover, the bases will be laid for establishing the new procurement system and the institutionalized training structure needed to provide the necessary support personnel and a sustainable mechanism for training them.

Risks:

Operations of this type generally involve risks associated with the leadership required to introduce the measures. The government has made this operation a top priority and has undertaken important commitments vis-à-vis the program, including commitments with the IMF that are built into the comprehensive poverty reduction strategy to make certain key activities in this operation conditions for reaching the decision point under the Heavily Indebted Poor Countries (HIPC) Initiative (initiation of the consulting services for the inspection component and the management support component).

To mitigate the risks that this operation's activities entail, an agreement was reached with the authorities that the executing agency would be the Technical Secretariat of the Office of the President of the Republic, an advisory body at a higher level whose projects include major reform programs. It has the capacity to conduct the activities planned under the proposed operation and to assume the leadership role that those activities require.

The operation will need financial support from the donor community. At the May 1999 meeting of the Consultative Group in Stockholm, and again at the May 2000 meeting in Washington D.C., the international community expressed its support for the program because it will help make procurement more efficient and transparent. Nevertheless, the formalities for approval and implementation of the cofinancing and respective administration agreements may cause delays in program execution. The borrower has committed to providing resources from the National Budget if necessary to supplement program financing. However, given current fiscal constraints, it may not be feasible for contributions from the National Budget to be made on a timely basis if donor resources prove insufficient, presenting a risk for program execution. To mitigate this risk, as a condition precedent to the first disbursement of the proposed loan, grant agreements must be signed by the Government of Nicaragua and the donor agencies and the respective administration agreements by the donors and the Bank for the equivalent of at least US\$4.5 million in total grants.

Previously fulfilled conditions:

- ?? Letters of intent have been received or grant contracts concluded between the government and the cooperating parties totaling the equivalent of at least US\$1.5 million (see paragraph 5.21).

Special contractual conditions:

The following special conditions will be included in the contract, in addition to the standard clauses:

Conditions precedent to the first disbursement:

- ?? An executive decree creating the executing unit must have entered into force (see paragraph 5.1)
- ?? The Operating Regulations agreed upon with the Bank must have entered into force (see paragraph 5.5).
- ?? The Government of Nicaragua and donors must have entered into grant agreements, and the cooperating partners and the Bank are to conclude the respective management agreements, for at least US\$ 4.5 million (see paragraph 5.21).

Conditions precedent to disbursement of resources for the training component:

SETEC and MHyCP are to have concluded an agreement that must, at a minimum, stipulate the terms indicated in paragraph 5.19.

Other special conditions:

- ?? The borrower is to disclose the final inspection reports to the public (see paragraph 2.9).
- ?? The executing agency, MHyCP and the respective government agency are to enter into agreements before those agencies may participate in the management support component (see paragraph 5.17).
- ?? The terms of reference for the consulting firms are to include the environment-related functions indicated in paragraph 4.1.
- ?? The government, donors and the Bank are to hold the periodic project coordination and monitoring meetings referred to in paragraph 5.22, and the executing agency is to submit the reports described in paragraph 5.29.

Poverty-targeting and social sector

This operation does not qualify as a social equity project as described in the key objectives of the Bank's activity set forth in the Report on the Eighth General Increase in Resources (document AB-1704), nor

classification: does it qualify as a poverty-targeted initiative (PTI).

Exceptions to Bank policy: None

Procurement: International competitive bidding will be required for the procurement of goods in amounts above US\$250,000. The proposed operation does not call for any construction contracts. Procurement in amounts below US\$250,000 will, in principle, be carried out in accordance with local legislation. International competitive bidding will be required for the selection and hiring of consulting services in amounts above US\$200,000.

For the evaluation of bids under the inspection component, the procedure of hiring based on quality and price will be followed. The relative weight of price may not exceed 20%. Accordingly, the weight given to technical or quality considerations must be no less than 80%. (see paragraphs 5.24 and 5.25).